

Message Text

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ORIGIN EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 NEA-10 ISO-00
SOE-02 AID-05 CEA-01 CIAE-00 COME-00 DODE-00
DOE-15 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15 STR-07
TRSE-00 ACDA-12 SIG-03 /166 R

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NEA/AFN:ABERGSTROM
AF/W:RKOTT
DOE/SPRO:SFIELDS (DRAFT)
DOE/IA:JMORRIS (DRAFT)
DFSC:COL. SHAMBLEE (DRAFT)
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FM SECSTATE WASHDC
TO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY CARACAS
AMEMBASSY JIDDA
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMEMBASSY MEXICO
AMEMBASSY OSLO
AMEMBASSY TEHRAN
AMEMBASSY TRIPOLI
AMCONSUL DHAHRAN
INFO USINT BAGHDAD
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY KUWAIT
AMEMBASSY QUITO
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AMEMBASSY LIBREVILLE
AMEMBASSY PORT OF SPAIN

C O N F I D E N T I A L STATE 070969

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: ACCEPTANCE PROCEDURES FOR CRUDE OIL FOR U.S.
STRATEGIC PETROLEUM RESERVE

1. DEFENSE DEPARTMENT'S DEFENSE FUEL SUPPLY CENTER (DFSC) IS THE PURCHASING AGENT FOR CRUDE OIL FOR THE U.S. STRATEGIC PETROLEUM RESERVE (SPR). PURCHASES FOR THE SPR BEGAN LAST YEAR, FILL IS EXPECTED TO REACH 125 MILLION BARRELS BY END OF 1978, AND PURCHASES WILL CONTINUE THROUGH 1985. PURCHASES ARE MADE BY COMPETITIVE BIDS, AND LOW BIDDERS THUS FAR HAVE INCLUDED A WIDE VARIETY OF OIL COMPANIES, INTERNATIONAL TRADERS AND OIL BROKERS. (FYI NO NATIONAL OIL COMPANIES FROM OPEC MEMBERS HAVE AS YET SUBMITTED ANY BIDS, ALTHOUGH SOME HAVE INDICATED INTEREST IN DIRECT SALES ON A GOVERNMENT-TO-GOVERNMENT BASIS.)

2. US LAW (CARGO PREFERENCE ACT) REQUIRES THAT 50 PERCENT OF GOVERNMENT PURCHASES OF IMPORTED GOODS BE SHIPPED ON US FLAG VESSELS, IF AVAILABLE AT FAIR AND REASONABLE RATES. ALTHOUGH WAIVERS MAY BE OBTAINED ON A CASE-BY-CASE BASIS, ONE WAY TO MEET THIS REQUIREMENT IS BY PURCHASING CRUDE OIL ON AN QUOTE ORIGIN UNQUOTE BASIS

AND THEN ARRANGING SHIPMENT ON U.S. FLAG TANKERS.
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WHEN THIS IS DONE, DEFENSE PROCUREMENT REGULATIONS REQUIRE THAT A U.S. GOVERNMENT REPRESENTATIVE SIGN FOR QUANTITY OF GOODS PURCHASED (AND CONDUCT OR ARRANGE FOR QUALITY ASSURANCE INSPECTION) AT TIME OF RECEIPT. NORMAL METHOD USED BY DFSC FOR OVERSEAS PURCHASES OF REFINED PETROLEUM PRODUCTS IS VISIT BY DEFENSE QUALITY ASSURANCE PERSONNEL STATIONED IN BAHRAIN OR EUROPE. QUALITY ASSURANCE ASPECT CAN BE CONDUCTED BY COMMERCIAL FIRM, BUT QUANTITY ACCEPTANCE CAN ONLY BE PERFORMED BY USG REPRESENTATIVE.

3. OPEC MEMBERS HAVE NOT ADOPTED ANY JOINT POSITION REGARDING CRUDE SALES TO THE SPR. WE WOULD NOT WISH TO HAVE ROUTINE ACCEPTANCE PROCEDURES RAISE A POLICY QUESTION ABOUT SALE OF THESE COUNTRIES' CRUDE OIL TO THE SPR. COMPETITIVE BID PROCESS IS WORKING WELL, AND AT THE PRESENT TIME THERE ARE NO GOVERNMENT-TO-GOVERNMENT TRANSACTIONS UNDERWAY FOR THE SPR. THUS FAR, MINOR PROBLEMS OR DELAYS HAVE ARISEN INVOLVING DEFENSE QUALITY ASSURANCE VISITS IN TWO COUNTRIES. AS FILL RATE FOR THE SPR INCREASES, IT IS IMPERATIVE THAT PLANNED SHIPMENTS STAY ON SCHEDULE IN ORDER TO ENSURE REGULAR SUPPLY OF

CRUDE OIL FOR COMPLICATED STORAGE PROCESS.

4. WE DO NOT WISH TO LOSE THE OPTION OF OBTAINING CARGOES ON AN F.O.B. ORIGIN BASIS BECAUSE OF AN INABILITY TO UTILIZE GOVERNMENT QUALITY ASSURANCE REPRESENTATIVES AT LOADING PORTS. LOSS OF THIS OPTION WOULD LIMIT PROGRAM FLEXIBILITY AND COULD SERIOUSLY INCREASE COSTS. THUS DEPARTMENT SEEKS EMBASSIES' ASSISTANCE IN OVERCOMING ANY PROBLEMS WHICH MAY BE ANTICIPATED. WE ESTIMATE THAT MOST CRUDE OIL FOR SPR WILL COME FROM SAUDI ARABIA, U.K., IRAN, NIGERIA AND LIBYA, AND THAT MORE THAN ONE-HALF IS LIKELY TO BE PURCHASED ON QUOTE ORIGIN UNQUOTE BASIS. DFSC WILL THEREFORE NEED TO CARRY OUT ACCEPTANCE PROCEDURES FOR SEVERAL TANKERS PER MONTH IN THESE
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COUNTRIES OVER THE NEXT FIVE YEARS.

5. FOR TEHRAN: DEPARTMENT APPRECIATES EMBASSY'S EFFORTS THUS FAR TO ARRANGE FOR QUALITY/QUANTITY ACCEPTANCE VISITS TO KHARG ISLAND, AND HOPES THAT ROUTINE CLEARANCE MECHANISM CAN BE ARRANGED.

6. FOR TRIPOLI: DEPARTMENT REALIZES THAT FREQUENT VISITS BY DOD PERSONNEL WOULD NOT BE WELCOMED BY LARG. WOULD APPRECIATE CONFIRMATION AND EMBASSY'S VIEWS ON FEASIBILITY OF FOLLOWING ALTERNATIVES: AIR TRAVEL BY CIVILIAN DOD EMPLOYEES WITH REGULAR PASSPORTS TO CONDUCT

QUALITY ASSURANCE AND QUANTITY ACCEPTANCE PROCEDURES, OR SENDING MILITARY OR CIVILIAN REPRESENTATIVES ABOARD THE TANKERS WHICH WILL PICK UP THE CRUDE. ESPECIALLY IN VIEW OF COL. QADDAFI'S PAST STATEMENTS ABOUT THE SPR PROGRAM, YOU SHOULD NOT RAISE THIS QUESTION WITH GOVERNMENT OFFICIALS, BUT MAY CONSULT INFORMALLY WITH OIL COMPANY REPRESENTATIVES.

7. FOR JIDDA, DHAHRAN: DEPARTMENT DOES NOT ANTICIPATE THAT SPR ACCEPTANCE PROCEDURES WILL POSE ANY PROBLEMS, ESPECIALLY SINCE FREQUENT VISITS ARE NOW MADE TO RAS TANURA FOR INSPECTION OF REFINED PRODUCTS. WOULD APPRECIATE YOUR CONFIRMATION OR COMMENTS.

8. FOR LAGOS: DFSC HAS NEVER ROUTINELY SENT IN QUALITY ASSURANCE PERSONNEL. PLEASE ADVISE IF YOU ANTICIPATE ANY PROBLEMS WITH VISIT OF DFSC REPRESENTATIVES ON PERHAPS A MONTHLY BASIS.

9. FOR OTHER ACTION ADDRESSEES: SOME CRUDE OIL PURCHASES
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FOR THE SPR WILL BE MADE FROM YOUR HOST COUNTRIES ON AN ORIGIN BASIS. WE DO NOT EXPECT ACCEPTANCE PROCEDURES TO POSE PROBLEMS. IF, HOWEVER, EMBASSIES DO ANTICIPATE ANY PROBLEMS, PLEASE INFORM DEPARTMENT.

10. FOR INFO ADDRESSEES: CRUDE STREAMS FROM THESE NATIONS ARE NOT NOW SUITABLE FOR THE SPR, AND WE DO NOT ANTICIPATE ADDITIONS TO THE LIST OF SUITABLE CRUDE STREAMS AT THIS TIME. THIS MESSAGE FOR YOUR INFORMATION ONLY. VANCE

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